

**PX 105**

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**Sent:** 4/30/2017 2:14:01 PM  
**Subject:** XRP Escrow Executive Summary

Hi all,

Below is the executive summary of the XRP Escrow proposal. The goal of the document is to clearly describe the rationale behind cryptographically restricting access to our XRP and make evident that the risks of doing so are very small, especially when compared to the possible benefits.

The questions at the bottom of the summary are meant to provoke feedback and guide the conversation tomorrow. We look forward to a productive discussion.

Best,  
Miguel

PS...A big thank you to [REDACTED] for doing the bulk of the work to get this document completed. No surprise, incredibly clutch as always.

 **Executive Summary of XRP Escrow Pro...**

# Proposal to Consider XRP Escrow Schedule

## Executive Summary

1. Our objective is to make XRP a liquidity tool for cross-border payments.
2. We want more XPR liquidity and while our efforts are helping, things are not moving as fast as we want.
3. As we look at the reasons why this is the case, the clear message we're getting is that the supply of XRP in the market is too uncertain for speculators to be comfortable being more active.
4. The root of this uncertainty is the fact that Ripple is sitting on 63B XRP that it \*could\* dump on the market at any time.
5. Placing the lion's share of Ripple's current XRP holdings into a transparently managed escrow account will remove that uncertainty and drive a material increase in XRP trading volume / liquidity. Of course, that delivers a lot of attractive benefits to Ripple.
6. As we assess the potential downside of this XRP 'lock up', we've come to the conclusion that the downside is very limited--this is largely a 'sleeves off our vest' proposal.
7. With BTC uncertainty, and an altcoin market that's heating up, now's the time to go for it.

## Objective

We want to make XRP a viable asset to provide liquidity for cross-border payments. The objective of this proposal is to build the prerequisite liquidity to make that possible by first securing speculative liquidity. The proposal is successful if we:

- Generate at least 2x more 2017 XRP bookings than currently forecast
- Stimulate immediate increase in volume and price appreciation
- Accelerate needed liquidity to support payment flows

## Proposal Overview

Marketing survey results indicate the primary objections to buy centered around uncertainty with Ripple's holdings. Investor and capital market experts agree. Below is a proposal to address this headwind with the 63B XRP we control:

- XRP for Cash Flow moved into a rolling escrow schedule: 60B XRP
  - 1B XRP released each month
  - Whatever is unused at month's end is returned to the 'back of the escrow queue'
- XRP set aside for Lending: 3B XRP
  - Ripple can move unused XRP into the lending pool
  - XRP can be returned to Ripple but only within the escrow schedule

## Comparing the Status Quo

Another proposal is to do nothing at all. There are three views:

Scenario	Reality
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Speculator market will continue to grow without any changes.	Though some growth is possible, XRP markets are unlikely to achieve the same level of robustness as traditional markets, or digital asset markets, without similar supply clarity.
Speculators are not needed as XRP is purpose built for payments.	The largest, healthiest markets in the world, all have significant speculator activity. Continuing down the road of building XRP markets without speculator interest is unlikely to lead to the necessary liquidity for payments.
Ripple will be able to monetize its XRP with the existing market development pace.	If Ripple targets \$200M from XRP revenue, we would need to sell 2B XRP per year if we assume that XRP prices without the lock up can average \$0.10. At this pace it would take 30 years to liquidate our holdings. The proposal has plenty of cushion with 12B XRP per year.

## Why Now

With Bitcoin in crisis and the altcoin market heating up, the iron is hot. Now is the time to establish XRP as the emerging winner by dislodging ETH from the #2 spot.

## Requirements for Operational Flexibility

### Cash Flow

Cash flow is defined here as cash generated from the sale of XRP combined with any payments in XRP, including incentives and employee compensation. The most we've ever spent was 941MM XRP in March of 2016 when XRP was trading at \$0.0073. On average, we spend around 300MM XRP each month. Considering the impact of the proposal is to constrain supply, then we expect price appreciation and fewer XRP to meet our cash flow needs.

➤ *Recommendation: Expose 1B XRP each month to the company for cash flow needs.*

### Future Lending

In healthy financial markets, professional traders borrow the assets for which they are making markets to minimize their balance sheet risk. We should set aside a pool of XRP for the dedicated purpose of lending. Summary of expected lending needs:

	Spot Turnover	Daily Repo Market	XRP*
Gold	\$20B	\$2B	57B
XRP Today*	\$10MM	\$1MM	28.6MM
XRP = BTC Volumes	\$350MM	\$35MM	1B

\*Assume XRP is priced at \$0.035

➤ *Recommendation: Set aside 3B XRP for lending.*

## Business Deals

Business deals can be designed around locked-up XRP. The XRP can be pledged but delivered in the future as part of any deal.

➤ *Recommendation: No special carve out.*

## Risks

### Summary of Risks and Mitigations

Risk	Mitigation
Cash flow shortfall	<ul style="list-style-type: none"> <li>• Accounting for historical maximum at historical low price</li> <li>• Long term cash needs should also come from s&amp;s and trx revs</li> </ul>
Lending shortfall	<ul style="list-style-type: none"> <li>• Setting aside a large pool</li> <li>• Gold markets as proxy</li> </ul>
Business deal obstacle	<ul style="list-style-type: none"> <li>• Pledge forward</li> </ul>
Impact on valuation	<ul style="list-style-type: none"> <li>• Asset book value will face discount for liquidity or time--either/or</li> </ul>
Desired outcome not achieved	<ul style="list-style-type: none"> <li>• No impact on current forecast</li> <li>• OTC sales comprise majority of revenues, which are restricted</li> </ul>
Reduced flexibility with financing	<ul style="list-style-type: none"> <li>• Debt structuring can track the shape of the time-mechanism</li> <li>• Until there is a healthy financial market for XRP, debt financing will track the enterprise, not the asset</li> </ul>

## Debt Financing

We will still be able to pledge XRP collateral but the shape of the loan will just look different (longer payback period and likely a monthly coupon, for example). Suffice to say that a loan based on XRP as collateral will only be possible if:

- volatility is way down;
- there is enough liquidity to immediately liquidate the XRP collateral;
- there is a deep futures market to hedge XRP, and;
- there is liquidity for the lender to offload his loan to someone else.

For the foreseeable future, financing options will be predicated on the enterprise value of the corporate.

## Rewards

### Price Appreciation

The escrow schedule will help with two XRP market impediments:

1. It will constrain supply, which limits the amount available for purchase.
2. It will reduce the discount priced into XRP due to the uncertainty around supply.

Here's a framework for thinking about this:

	Status Quo	With escrow Schedule
Market Cap	\$4B	\$4B
Supply (XRP)	100B	40B
Price Per XRP	\$0.04	\$0.10
Removed Discount from Overhang Risk	N/A	50%
Expected price	N/A	\$0.10

#### Volume Increase

Increased price volatility is generally accompanied by higher volume. XRP rallies in 2017 have seen daily volume levels between 25x and 150x higher than the preceding 1 month average daily volume. If our very rough price estimate is correct, this means XRP could trade over \$1B in the day or two after the announcement, and stabilize near \$100MM in daily volume.

#### Bigger XRP Bookings Commitment

Increased price and volume expectations will translate to higher XRP bookings for 2017:

	Daily Volume	H2 of '17	0.5% Income	Price	XRP
Current	\$10MM	\$183MM	\$9MM	\$0.04	304MM
Expected	\$100MM	\$18B	\$91MM	\$0.10	912MM
Adjust 50%	\$50MM	\$9B	\$46MM	\$0.05	912MM

#### Higher Valuation

In the worst case scenario, assuming the price moves up modestly and investors apply today's illiquidity discount on top of the new discount for the time-based constraints, the real asset value is basically the same:

	Status Quo	With Escrow Schedule
Expected price	\$0.04	\$0.10
Total XRP	60B	60B

Mark-to-market book value	\$2.4B	\$6.0B
Investor discount for illiquidity	50%	50%
Real value	\$1.2B	\$3.0B
Investor discount for time-constraints	N/A	50%
Real asset value	\$1.2B	\$1.5B

At the same time, cash flows are likely higher and more predictable. This is a sleeves off our vest proposal for a potentially better enterprise value.

## Questions for Discussion

1. Are there other downside risks that have not considered?
2. On spectrum of low to high probability and impact, how do you think about the potential downside risk?
3. Does it make sense, that as they currently are, XRP markets are not properly structured for optimal liquidity?
4. Have we answered the question on the need for speculators to drive long term liquidity? For example, is there a scenario where we 'skip' the speculator stage, get large payment volume, and build liquidity on the back of commercial flows?
5. Just as it was impossible to know the use cases of the internet in the age of the telegram, are there other uses of XRP that we can't imagine today for which we need more flexibility?
6. Are we giving up our role as "the Fed" of XRP and perhaps a bigger role as the central bank for the best virtual currency in the world? Are we thinking too small?